

CREDIT OPINION

5 May 2020



Contacts

Max Brekke +1.312.706.9969
 Associate Lead Analyst
 max.brekke@moody's.com

Eric Harper +1.312.706.9972
 VP-Senior Analyst
 eric.harper@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Whitewater (City of) WI Water Enterprise

Update to credit analysis

Summary

The [Whitewater \(City of\) Water Enterprise](#) (A1) benefits from increased rates that support strong net revenue and a solid cash position. The debt burden is moderate relative to the system's small operating size and annual debt service coverage is strong. The enterprise's largest ratepayers are a gas power plant and the University of Wisconsin-Whitewater, which have provided stable water sales in recent years. Coronavirus related shutdowns could negatively affect water sales at the university over the coming months. Legal protections on the system's water revenue debt are adequate, and its revenue debt is additionally secured by the city's pledge to cure debt service deficiencies (subject to annual appropriation).

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Whitewater's Water Enterprise. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the water enterprise changes, we will update our opinion at that time.

Credit strengths

- » Strong liquidity and days cash on hand
- » Demonstrated willingness and ability to raise regulated rates

Credit challenges

- » Small system with limited service area growth
- » Below average demographic profile

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Significant expansion to the customer base
- » Material debt burden decline

Factors that could lead to a downgrade

- » Deterioration in liquidity

» Sustained decline in debt service coverage

Key indicators

Exhibit 1

Whitewater (City of) Water Enterprise, WI					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	29 years				
System Size - O&M (\$000)	\$1,073				
Service Area Wealth: MFI % of US median	71.60%				
Legal Provisions					
Rate Covenant (x)	1.20x				
Debt Service Reserve Requirement	DSRF funded at the lesser of the standard 3-prong test (Aa)				
Management					
Rate Management	A				
Regulatory Compliance and Capital Planning	Aa				
Financial Strength					
	2014	2015	2016	2017	2018
Operating Revenue (\$000)	\$1,709	\$1,712	\$1,803	\$1,739	\$1,850
System Size - O&M (\$000)	\$901	\$917	\$937	\$964	\$1,073
Net Revenues (\$000)	\$810	\$798	\$869	\$833	\$809
Net Funded Debt (\$000)	\$1,978	\$1,596	\$2,026	\$1,776	\$2,726
Annual Debt Service (\$000)	\$474	\$511	\$257	\$195	\$235
Annual Debt Service Coverage (x)	1.7x	1.6x	3.4x	4.3x	3.4x
Cash on Hand	403 days	355 days	378 days	469 days	447 days
Debt to Operating Revenues (x)	1.2x	0.9x	1.1x	1.0x	1.5x

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Whitewater Water Enterprise is owned by the [City of Whitewater](#) (A1) and provides municipal water service within the city limits. The water system has 3,839 water meters, 5 wells and 7 employees. The system pumps into distribution about 1.6 million gallons per day (mgd). The system provides services to city's residential population of 14,750, various commercial and industrial entities and the University of Whitewater with its 11,586 students.

Detailed credit considerations

Service area and system characteristics: small system size; below average socioeconomic profile

We do not expect material declines in water system revenue, however revenues from commercial customers and the University of Wisconsin at Whitewater are likely to decline in the short-term. The water enterprise's service area benefits from the institutional presence of the university and location 45 miles southeast of [Madison](#) (Aaa stable) and 55 miles southwest of [Milwaukee](#) (A1 negative). The water system provides service to the city's stable population of 14,750 through 3,758 metered customers. As is common among cities with a large university presence, rate payer income metrics are below average with the city's median family income at 72% of national medians. The system size is below the US median, as measured by operating and maintenance expenses at \$964,000.

A study of the water system demonstrated sufficient ability to meet demand in 2017 with estimated well capacity at about 6.7 million gallons per day (mgd), average daily pumpage at 2mgd and maximum domestic pumpage at 3.9mgd. The system's customer base is primarily residential at 34% of revenue, as estimated from the city's 2019 actual estimated budget. Revenue is concentrated among

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

the top two rate payers, LS Power and the university. LS Power is a natural gas fire power plant that uses water for steam generation and makes up 23% of the water system's revenue. The university makes up about 10% of revenue. Water system revenue will likely be negatively affected from university closures though the system benefits from ample liquidity and strong days cash on hand.

Debt service coverage and liquidity: sufficient coverage and strong liquidity

We expect the system's financial position to remain sound given strong net revenue, ample liquidity and likely rate increases. A large rate increase is expected in 2020 due to a complex rate study nearing completion with the Public Service Commission (PSC) of Wisconsin. As of April 2020, the PSC has submitted a letter to the city proposing a rate increase of over 20%. Fiscal 2018 operating revenue increased to \$1.9 million in fiscal 2018 due to a moderate 3% rate increase.

We expect the system's strong annual debt service coverage to remain stable to remain mostly stable due to future planned rate increases, however coronavirus related shutdowns could result in moderate declines in water sales. Total annual debt service coverage was a strong 3.4x in fiscal 2018. Senior lien annual debt service coverage was a stronger 4.2x.

LIQUIDITY

We expect water system liquidity to remain strong due to upcoming rate increases. The system ended fiscal 2018 with a cash balance of \$1.3 million, equal to a very strong 447 days cash on hand. Unrestricted liquidity is expected to increase in fiscal 2019 to \$2.4 million, or a 127% of total operating revenues.

Debt and legal covenants: moderate debt burden, adequate legal provisions

The water enterprise's debt burden is likely to remain moderate based on moderate additional borrowing plans. Recent increases in net funded debt are largely from capital projects funded by GO debt issued by the city and supported by the city's enterprises including the water system. In 2020, the City of Whitewater expects to issue \$5 million in long-term debt to refinance \$2.3 million outstanding short-term notes and finance capital improvement projects across the city and its three business enterprises. Debt to operating revenue remained very strong at 1.5x. We expect the water systems gross debt burden to increase slightly due to manageable borrowing plans.

Legal provisions are satisfactory and include a rate covenant and additional bonds test of 1.2 times maximum annual debt service (MADS) for all outstanding revenue bonds. Additional security includes the city's pledge to cure deficiencies for reasonable costs and services should the enterprise's revenue falls below the pledge 1.2 times annual debt service requirement, though this pledge is subject to appropriation and levy limits.

DEBT STRUCTURE

All of the system's revenue debt is fixed rate and amortizes over the long-term. Debt service on the revenue bonds is secured by a senior lien on the water enterprise's net revenues. Amortization of revenue debt is fairly rapid with 73% of principal scheduled to retire within 10 years.

DEBT-RELATED DERIVATIVES

The system has no exposure to any debt-related derivatives.

PENSIONS AND OPEB

Employees of the water enterprise, like most city employees, participate in one multiple-employer cost-sharing plan, the Wisconsin Retirement System (WRS). In fiscal 2018, the enterprise contributed \$29,000 to the plan, equal to a low 1.6% of city operating revenue. For more information on the City of Whitewater's pension obligations, please see our most recent [credit opinion](#) on the city.

ESG considerations

Environmental

Environmental considerations are not a primary credit driver. According to data of Moody's affiliate Four Twenty Seven, the City of Whitewater and its water enterprise are located in an area with high risk rainfall exposure and low risk to water stress exposure. The water enterprise are subject to extensive regulation pursuant to the federal Clean Water Act, the Clean Air Act, various administrative rules and State of Wisconsin regulations. The authority is in material compliance with all existing permits relating to the operation of the water and sewer systems.

Social

The water system provides an essential public service that is critical to community health and well-being. The system's largest rate payer includes a gas power plant and the University of Wisconsin-Whitewater. Water system revenue will likely be negatively affected in 2020 from university closures with the severity of these effects depending on the length of closure. However, the system benefits from strong days cash on hand and we expect revenue to recover following disruptions.

Governance

The water systems rate-setting is regulated by the Public Service Commission (PSC) of Wisconsin. However, the city has successfully passed rate increases in 2014 and 2018 to ensure revenue is sufficient to support debt service and cash reserves. In 2020, a large rate increase is expected. Management maintains a long-term capital improvement plan and currently has no outstanding consent decrees or other environmental regulatory violations.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454